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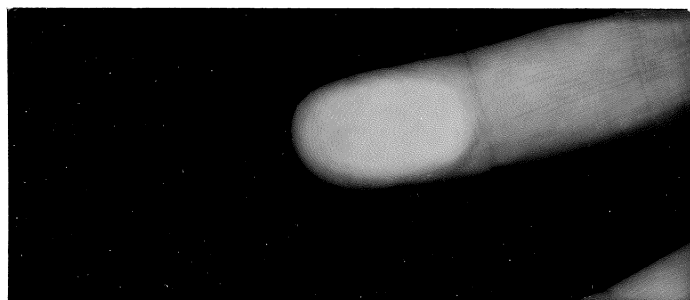
**THE NEW SOVIET COOPERATIVES:  
ADVANCES AND LIMITATIONS**

by  
**DOMENICO MARIO NUTI**

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## THE NEW SOVIET COOPERATIVES : ADVANCES AND LIMITATIONS 1

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### 1. Introduction.

Cooperative ownership and enterprise have always been favoured by socialist theory and practice, from the Owenite experiments of 1830s to Yugoslav "associationist socialism" of the last two decades. In the Marxist-Leninist brand of "realised socialism", however, cooperatives have often been treated with some ambivalence. Marx regarded cooperatives as a potential though not actual expression of the communist ideal of "free associated producers" <sup>2</sup>; Lenin favoured cooperatives but primarily in the sphere of commodity distribution <sup>3</sup>; even in his 1923 articles "On co-

1. An earlier version of this paper was presented at a panel discussion on Soviet cooperatives, with the participation of Professor Abel Aganbegyan of the Soviet Academy of Sciences and of Lanfranco Turci President of the Italian League of Cooperatives, Villa d'Este, Cernobbio, 14 June 1988; it was also presented at the Fifth International Conference of IAFESM (International Association for the Economics of Self-Management), Vienna, 6-8 July 1988. Useful comments were made by participants in both events as well as by Greg Andrusz, Phil Hanson, and in particular Renzo Daviddi; their help is gratefully acknowledged but they should not be held responsible for any remaining error or omission.

2. "If co-operative production is not to remain a sham and a snare; if it is to supersede the Capitalist system; if united co-operative societies are to regulate national production upon a common plan, thus taking it under their own control, and putting an end to the constant anarchy and periodical convulsions which are the fatality of Capitalist production - what else, gentlemen, would it be but Communism, "possible" Communism?" (Address of the General Council of the International Working Men's Association on the Civil War in France, 1871, written by Marx who was then corresponding secretary for Germany and Holland; in Marx 1966, p.73; see also Marx's Critique of the Gotha programme, end of section III). Dellenbrant's (1988) argument that Marx was of two minds, regarding cooperatives sometimes as inferior to state enterprises (allegedly in Marx 1966) does not seem to be supported by textual analysis.

3. "... the workers' cooperatives that have a tremendous part to play in the proper organisation of distribution" of consumer goods and especially food, wishing "the conversion of the workers' co-operatives into a single

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operation", where he argues that "the only task ... that remains for us is to organise the population in co-operative societies", Lenin mentions only trade and agricultural production <sup>4</sup>, excluding the "commanding heights" of the economy traditionally reserved to the state as a higher form of collective ownership <sup>5</sup>. In practice from the end of NEP until recently Soviet cooperative enterprises have consisted primarily of large collective farms (kolkhozy) and of consumption cooperatives especially in housing; kolkhozy however were virtually undistinguishable from state farms, i.e. sovkhozy, because they were not self-managed institutions but centrally administered agencies, and they were paying out guaranteed wage incomes instead of income shares. In other socialist countries collective farms have had the same features; where production cooperatives were present outside agriculture, as for instance in Poland and Hungary, on the contrary they acted as a shell for small-scale private enterprise. The 1977 Soviet constitution recognises cooperative ownership as a temporary phenomenon (ch. 2, art. 10-18, see Andrusz 1988). The drive towards economic reform has been identified with de-collectivisation of agricultural cooperatives (as in Poland in 1956) and the promotion of cooperatives outside agriculture (as in Hungary in 1982).

The latest wave of "radical" economic reform in the Soviet Union has led to the important rediscovery and revamping of cooperatives. At the XXVII Party Congress in 1986 M.S. Gorbachev stated that cooperatives had "far from exhausted their potential"; at a speech in Khabarovsk in July 1986 he referred to manufacturing cooperatives, "which were eliminated in the 'fifties and 'sixties, evidently prematurely" (quoted by Teague, 1988). The State Enterprise Law of 1987 already recognised the importance of cooperative enterprises; a number of Party and Government decrees followed, which prompted a rapid rise of new cooperatives (though it has been suggested that reports may have been exaggerated by official complacency). At the Plenary Session of the Central Committee (June 1987) Gorbachev defended cooperatives on the ground that they "help to satisfy pressing consumer demands and thereby substitute for the 'black' economy and all sort of other economic abuses

Moscow City consumers' commune" (speech delivered to a meeting of delegates from the Moscow Central Workers' Cooperative, 26 November 1918; in Lenin 1964, p. 179 and 183). He also stressed the Menshevik roots of the cooperative movement, p. 180.

4. Published in Pravda on 26 and 27 May 1923; English translation reprinted in Lenin 1964, pp. 359-366.

5. Lenin also argued with Kautsky about the limits of group ownership.

and criminal offences which presently occur" (Andrusz, 1988). A Draft Law on Soviet Cooperatives was published by Pravda on 6 March 1988; a strong speech in defense of cooperatives especially in agriculture was made by Gorbachev at the Fourth All-Union Congress of Collective Farmers on 26 March. The Draft Law was publicly discussed, amended significantly and "progressively" in the light of discussion and criticism, swiftly approved in May 1988 and implemented. In the year from July 1987 the total number of cooperatives in the Soviet Union grew from 3,709 to 32,561, while their total turnover increased from roubles 29.2 mn to roubles 1.04 bn in the same period.<sup>6</sup>

The new Law on Soviet Cooperatives allows any group of at least three people over 16 to form a cooperative enterprise for the organisation of production or consumption, only subject to registration of its statute, and to undertake any activity not expressly forbidden by law, according to principles of self-management, income sharing and the protection of members' ownership rights. Compared with existing practice, the new policy encourages a wider range of production activities on a larger scale.

The new Law - a rambling and somewhat repetitive document, commenting on policy as well as setting new legal rules - specifically recalls but does not quote Lenin's ideas on cooperatives, and extolls the virtues of cooperation in no uncertain words: "Work in cooperatives is honourable and prestigious and is encouraged in every possible way by the state" (art. 1.4; references are to the final text unless specified otherwise). Indeed "The state, aided by the mass media, creates the most favourable ideological preconditions for cooperatives' activity and ensures everywhere the kind of moral and psychological climate in which each cooperative member is aware that by working in it he or she is performing important and socially useful work ..." (art. 29.4). The emphasis is such that it strongly suggests a reversal of previous policy, of course outside agriculture. Clearly cooperative development is part of perestroika, because of its potential mobilisation of workers' entrepreneurship, the expectation that it would raise supply especially of shortage goods and activate competition, the presence of economic democracy, self-interest and effort-related reward - all essential ingredients of perestroika (see Gorbachev 1987 and Aganbegyan 1988 who recalls Chayanov's contribution to the economics of cooperatives). However, cooperatives are controversial; for some "the co-operative movement carries within it the germ of the political and economic socialist

6. Just over half of them, 16,324 with a turnover of roubles 528 mn, are in the Russian Republic; Ukraine has 5,269 with a turnover of roubles 151.8 mn; Byelorussia, Kazakhstan, Uzbekistan and Georgia have over 1,000 each. Estonia, Latvia and Lithuania have respectively 609, 540 and 917 (FT, 23 August 1988).

revolution of 1917 that was asphyxiated in the 1930s" (Andrusz, 1988), while others refer to the "rebirth of the kulak" (letter to Izvestia, quoted by Hanson 1988), and associate cooperatives with unbridled profiteering<sup>Z</sup>.

The obvious economic attraction of cooperatives in the Soviet context is their ability to function as private enterprises would, i.e. as decentralised agencies more flexible and responsive than state enterprises, however without abandoning the basic principle of social ownership. There is no doubt that the growth of the cooperative sector in production activities outside agriculture could contribute greatly to the "restructuring" and "acceleration" of Soviet development through the filling of plan gaps, the adjustment to small imbalances, the utilisation of local resources and the absorption of the millions of workers which would be made redundant by the implementation of reform (although the growth of cooperatives may raise labour activity rates, as expected in art. 4.2; also, second economy activities may be encouraged by the Law allowing multiple membership of production cooperatives by a single person, and single membership by state employees, art. 12). The Law rightly talks of "immense potential" (Law preamble, p.3). There are, however, a number of limitations in the envisaged new regime for Soviet cooperatives. Some are due to the specific provisions of the Law: the detailed list of sectors of activity, their lack of competitive access to resources, their inability to set prices. Some are related to the general limitations of traditional cooperatives: inefficiency deriving from likely attempts at maximising income per member, and investment bias due to the non appropriability of self-financed investment. These limitations deserve more detailed illustration and discussion.

## 2. Sectors of activity

The cooperative enterprise is an independent legal entity with its own independent budget and limited liability; "entitled to engage in any kind of activity save those prohibited under the legislation of the USSR and its united republics" (art. 3.1; reference to republican legislation was not in the equivalent art. 2.1 of the Draft Law). Consumer cooperatives are standard: they "meet the requirements of their members and citizens for trade and consumer services and the requirements of cooperative members for housing, dachas, garden plots, garages and parking spaces for vehicles, and socio-cultural and other services". Production cooperatives instead "produce goods, products and jobs and also provide paid services to enterprises, institutions, organisations and citizens" (art. 3.2). However the very detailed list of what cooperatives

<sup>Z</sup>. "Do you want to hear the joke about co-ops?" "Yes." "Give me a rouble."

"are created and operate for" suggests that they should or at any rate are expected to stay away from the "commanding heights" of the Soviet economy, unless these could be regarded as falling under "technical production products" (produktsiya proizvodstvenno-tekhnicheskogo naznacheniya), which is unlikely.

The Law indicates food, consumer goods and services as the areas of cooperative operation; more precisely, it lists: production, procurement, processing and sale of agricultural output, manufacture of consumer goods, collection and processing of secondary raw materials, the extraction of useful minerals, equipment repair and servicing, production services, building roads and houses, retail trade, public catering and consumer services, organisation of cultural leisure and medical aid, the provision of legal, transport, research, planning and design services; the final version adds to the list also fishing, timber processing, the extraction of fossil minerals (art. 3.2). There are no limits to enterprise size (whether by membership, capital or turnover); the possibility of cooperatives reaching a large size is hinted in the faculty to open new offices and subsidiaries, granted in art. 5.4 and an innovation respect to the Draft Law. Cooperatives can also engage in credit activities, directly lending to other enterprises or through banks which they may found (subject to registration with USSR State Bank, art. 23) or to the state (purchasing sertifikaty i.e. deposit certificates, or other securities); undertake joint activities with state enterprises, merge into activity-specific or territorially-based associations.

The range of activities listed in the Law would fit well the description of the scope of cooperatives actually represented throughout the world, even where no restrictions apply to the sector of operation<sup>8</sup>. This may be a realistic recognition of the unsuitability of the cooperative enterprise to activities with above average risk or capital-per-man, rather than a determinate policy of cooperative exclusion; either way, the list dilutes somewhat the notion of "immense potential" of the cooperative sector in the Soviet economy.

An innovative aspect of cooperatives' sectoral scope is, on the contrary, their access to foreign trade (automatically for border trade, otherwise like for other enterprises, though presumably subject to ordinary licensing procedures), ability to retain part of their export earnings to finance their import requirements (art. 28.3) and to

<sup>8</sup>. At present more than a third of Soviet cooperatives provide various types of domestic services; over 5,000 are in catering; 7,000 make some form of consumer goods, 5,640 offer transport, sports and other facilities, and over 1,600 use the discarded equipment from plants in some form of recycling process (FT, 23 August 1988).

participate in joint ventures (art. 28.4; with respect to the Draft Law, the final version extends technical-scientific cooperation to non-socialist countries).

### 3. Access to resources

The activity of cooperative enterprises is, first of all, "based on the labour participation of their members", but cooperatives can also hire the work of non-members on a contractual basis. This provision (art. 12, mentioned above, and art. 25) has been interpreted by some commentators (for instance Hanson, 1988) as opening the possibility of private employment by Soviet cooperatives; however the spirit and the letter of the Law do not appear to go further than the hiring of part-time dependent labour - pensioners or workers also employed in the state sector - or the hiring of labour for a specific task and fee. In fact, "A cooperative may employ under labour contract citizens who are not cooperative members with payment for their labour being agreed between the sides. Citizens working in a cooperative retain their pension, study grant and wages from the main job in full" (emphasis added, art. 25.2). The corresponding art. 22.2 of Draft Law added "with no limitation on the size of earnings" leaving equalisation to fiscal policy, while the final version specifically confirms that the limitations do not apply to "persons working in cooperatives in the free time left by their main job" (art. 25.2, emphasis added). These provisions do not seem to reintroduce capitalist features in labour employment.

Members' incomes are based not only on the quantity and quality of their labour but also on the ownership (contributed by members or later acquired through self-finance or credit) and rental of other means of production, on a contractual basis; cooperatives can in turn sell or rent their means of production or lend their funds (art. 23.4). (They are subject to environmental and conservation constraints, presumably like other enterprises, art. 9.2; the final version of the Law includes an obligation for the cooperative to compensate for any environmental damage caused by a violation of safety and conservation rules). Natural resources are allocated to cooperatives administratively, however ("under the procedure laid down by USSR and union republican legislation", art. 9.1), not on the basis of competitive bids; nor can they obtain competitive access to centrally allocated means of production, or to resources held by other enterprises via take-overs or buy-outs. Thus, although the Law stresses the contractual nature of cooperative enterprises' links with their economic environment (plans are drawn by the cooperative itself, and executed by means of contracts), administrative procedures are still present. In particular, "On matters concerning the use of natural resources cooperatives agree their plans with local soviet executive committees" (art. 18.3); detailed reports are submitted to

higher bodies, and are necessary to ensure access to centralised supplies (art. 18.4).

Cooperatives may use medium term (two years) and short term credit (12 months, for working capital), at interest rates respectively of the order of 0.75 and 1 per cent (3 per cent on overdue loans), more favourable than those applicable to state enterprises (respectively of 0.5-8 per cent, and 10 per cent on overdue loans).

Cooperative access to investment and intermediate goods is subject to the same mechanisms of central allocation applicable to state enterprises, i.e. mostly through Gosstab. There have been many reports in the Soviet press of state enterprises demanding large shares of cooperative profits in return for access to centrally allocated inputs; "the device of establishing a cooperative attached to (pri) a state enterprise will probably be used as a means of getting centrally allocated inputs" (Hanson, 1988).

### 4. Management, unions and party

The tri-partite division of power (troika) between management, trade union and party, characteristic of traditional state enterprises is reproduced within the cooperative; however, in the final version, party authority is considerably reduced. In the initial draft the party cell within the cooperative, beside its specific role of politically educating cooperative members, had the supervision of all cooperative activities and control over management: "The cooperative's party organisation, as the political nucleus of the collectives, operates within the framework of the USSR Constitution, directs the work of the entire collective and the trade union, Komsomol and other public organisations, and monitors the activity of the cooperative's board (chairman)" (art. 5.3, Draft Law). In the final draft there is a greater emphasis on party political tasks, while retaining the party's generic "control over the economic activity and results of the cooperative" (art. 6.3 of final version). While the participatory nature of cooperatives (plus glasnost, specifically mentioned in art. 14.1) is bound to amalgamate the components of troika, with respect to the potentially centrifugal effects of such division of power in traditional state enterprises, the formalisation of a "directive" role of the party in cooperative economic life - albeit diluted in the final draft - seems at odds with the spirit of the Law, especially since party, union and Komsomol participate in their own right, next to the work collective, in decision making on enterprise activity. Moreover, it is not clear what the role of trade unions might be, in Soviet as well as in non-Soviet cooperatives, since members are also their own employers.

Self-management is expressed through the cooperative's general meeting of members, which elects a

chairman to manage day-to-day affairs and elects a board (in large cooperatives); the general meeting deals with statute changes, audits, admissions and expulsions of members, pay, dues, plans, price setting (subject to limitations below).

#### 5. Cost-based pricing

"Prices and tariffs for a cooperative's goods and services must reflect the socially necessary cost involved in producing and selling goods..." (art. 19.10); there follows a reference to "quality ... and consumer demand" but it would be far-fetched to interpret this as implying market-clearing pricing, in view of simultaneous reference to "economically unjustified" excessive prices. This is perhaps the single most important limitation to cooperative autonomy and economic potential. A cooperative subject to strict cost-plus formulas will not be able to capture quasi-rents from prompt response to temporary shortages or imbalances and therefore new cooperatives will not be set up to respond to such phenomena as quickly and effectively as they might be if prices were set at a market clearing level - still with the due safeguards against monopolistic and oligopolistic behaviour. (If cooperatives were keen on income-per-man maximisation, however, a price rise generated by temporary shortage would lead to smaller or rigid membership and supply - according to the Ward-Vanek model - and cost-based pricing would reduce that perverse response).

#### 6. Earnings

Members' incomes are paid out of the cooperative's cash flow (though they may include also elements in kind), "in accordance with their labour inputs and also, in cases stipulated by statutes, in accordance with their contribution of property to the cooperative" (art. 13.1), after due payment of social security contributions and tax.

The tax rates on the income of cooperatives and their members is not fixed by the law on cooperatives (see section 9 below). Severe checks and penalties are aimed at restricting the cooperative's ability to avoid or evade tax, suggesting that this is a serious preoccupation of lawmakers. Work conditions (health provisions, working hours, leave, etc.) are strictly put under the control of representative bodies. The pursuit of a "vigorous social policy", originally expected of the cooperative (art. 22.7 of Draft Law) is dropped from the final version.

In collective farms income sharing may be based on smaller groups, i.e. "independent financially autonomous cooperative collectives whose income is formed by the end-results of their economic activity" (art. 33.4), or on family contracts (including leasing of land and equipment). Collective farms also are expected to promote the use of private plots, by members and other citizens.

#### 7. "Shares".

Enterprises (cooperative and non) and state organisations can have shares (dolevoye uchastiye) in the property of cooperatives (art. 7.2); citizens who are not members may also "participate in forming the cooperative's property by way of contributions of money and materials" (art. 7.2); presumably these remain entitlements to the ownership of specific or replaceable items, on terms fixed at the time the property is conferred, not proportional shares in the totality of cooperative assets.

However, the Law specifically stipulates that the enterprise "... can issue shares (aktsii) for sale to members of the cooperative and people working in it under a labour contract and to enterprises (organisations)", art. 22.4. Shares are secured by cooperative property, cannot as a rule exceed gross annual income (for a capital/income ratio, say, equal to four, this implies that equity capital can at most cover 25 per cent of total capital); they are subject to members' preemption right. The cooperative "sets the invariable nominal value of shares for the entire period of their circulation and the procedure for paying the annual share dividend"; the annual dividend rate can be modified by a general meeting according to the cooperative cash flow.

The notion of these "shares" suggests the possibility of individuals and institutions owning a percentage stake in the variable value of cooperative assets. However this is not the case, and "share" is a misnomer for what is later described as securities redeemable only at their fixed face value - though yielding a dividend which may vary according to cooperative performance. In theory the cooperative statutes might stipulate that, when the cooperative is liquidated, net assets could be distributed among members in proportion to their holding of "shares"; however the law decrees that at liquidation (outside agriculture) any net assets should be distributed to cooperative members, so that in any case shareholding would have to be restricted to current members. Moreover the right to vote does not belong to shares but to members regardless of their shareholdings (if any), whereas true "shares" would have to carry a vote and be freely transferable outside cooperative members. Provisions of this kind have not been discussed or even suggested and in practice are unlikely in the foreseeable future. Thus the new Soviet cooperatives are far from restoring elements of the capitalist system.

#### 8. "Past labour" rights

Membership tenure is protected: "The law guarantees citizens the right of voluntarily joining and leaving ..." (preamble to the Law, p. 3); "...members' property interests ..." are also protected (art. 4.3). Presumably, however, leavers lose all except their pension

rights financed out of social security payments, i.e. do not benefit from any increment in the value of cooperative assets occurred since the time of their association, although it is due to internal accumulation out of the income they have contributed to produce, and to the success of their enterprise. This important component of entrepreneurial reward, which the Yugoslav call "past labour" (although this seems to include only to the part of capital growth due to self-financed investment; see Uvalic, 1987) is lost to workers at the time of withdrawal or retirement, unless this happens to coincide with cooperative liquidation in which case net assets are distributed to existing members (art. 44; except for agricultural cooperatives, see below). This may encourage repeated artificial liquidation and refounding of cooperatives or, alternatively, the distribution of a greater share of current income among members and greater use of credit in investment finance than otherwise would be the case (see Furobotn 1980, and Nuti 1988). This bias is not eliminated by the encouragement of cooperative-funded banks (the first of which was founded in Kazakhstan in August 1988 with a million roubles initial capital) since cooperatives' self-financed financial investment in banks is as unattractive, in comparison to distributing out cooperative's income to members, as investment in real plant 9. There is a provision, in the Soviet law, that seems designed to counteract this bias against self-financed investment, since cooperatives are said to be "obliged to augment" as well as safeguard and use efficiently their property (art. 7.4). However, this obligation in practice is no stricter than that of Yugoslav enterprises (which only have to maintain real capital) since no minimum growth rate is set to Soviet cooperative capital; indeed "A cooperative uses the financial resources at its disposal for production and social development as it sees fit, without restriction and irrespective of their origin" (art. 22.2).

Collective farms are subject to a slightly different treatment, in that amounts equivalent to self-financed accumulation may be credited pro rata to special accounts of members, who then draw interest payments from them. However in case of liquidation net assets are transferred to other cooperatives, so that members claims are limited to the reimbursement of their capital stake at its nominal value, without sharing in any capital growth which might be due to entrepreneurial success.

9. Financial investment has the advantage of not raising the size of membership and therefore not diluting cooperative earnings; from this viewpoint investment in new capacity can be more or less attractive than financial investment according to its labour intensity (see Nuti, 1988).

In brief, while cooperative statutes may stipulate freely the terms of members withdrawal and cooperative liquidation, it is most unlikely that members might be able to walk out of a Soviet cooperative taking away their full share of their cooperative's net worth: ultimately this is what constrains the Soviet cooperative, just as much as the conventional Western cooperative, to low risk low capital-intensity activities.

## 9. Further developments.

An indication of current trends is given already by a comparison between the March Draft Law and the text approved in May. All the amendments introduced in the final version are in the direction of radical reform. As we have already seen, these involve republican-level flexibility, a reduction of the economic role of the party and other central organs. Moreover, a stricter relation is envisaged in the Law between the cooperative and local soviets, with which the cooperative collaborates and negotiates on important issues (housing programmes, hospitals, nurseries, schools); contributions for social activities are paid to local soviets. References to the economic initiative of the local soviet (and other non-specified organisations, presumably party institutions), on the contrary, have been eliminated from the Draft Law, in areas such as associations with state enterprises, change of activity and liquidation. Also, in the final version of the Law strict terms are fixed for authorities to refuse registration and hear an appeal (art. 11.7); a tribunal or a state arbitrator can be invoked to rule on conflicts of competence between cooperatives and state organs (art. 10.2). Each member is given a vote, regardless of his capital stake (art. 14.2). The powers of cooperative organs are clarified: the cooperative council deals with current issues not specifically attributed to the assembly; the president is an executive; an auditors' commission controls the council's economic and financial activity (art. 14.4). The prohibition of utilising cooperative property "for personal gain" (art. 6.4 of the first draft) is modified to "for obtaining illegal incomes" (art. 7.4 of the Law). Finally, it is interesting that in the section on kolkhozy (Part V) this term is almost always replaced by the word "cooperative"; this is not a purely cosmetic change, as it seems to imply the replacement of contractual for obligatory procurements. Every single one of these changes is in the direction of Gorbachev's "radical reform".

At the Supreme Soviet of 24 May 1988 Prime Minister Ryzhkov presented the draft Law, stressing the need for small and medium size enterprises, flexible and "geared directly to the market", of a kind that the state sector had not been able to provide. He announced that nearly 6,000 new cooperatives had been founded in the previous three months, compared with 14,000 in the previous year and a half. At the same time he warned that local authorities and state bodies were trying to resist the growth of the sector



and prevent people from leaving state enterprises to work in cooperatives. "This is a far-fetched and feigned concern," he said. "It should be realised clearly that ... both sectors of the economy are equal. Anyone is entitled, just as envisaged in the draft law, to share in the cooperative movement" (FT, 25 May 1988). Normally the presentation of new laws to the Supreme Soviet for approval is a mere formality, but in this case there was a great deal of debate and amendments. Ryzhkov spoke of "200,000 observations" being raised during the discussion of the law. Opposition came both from conservatives, because of the implicit erosion of socialist control over the economy, and from reformers because of the high and discriminatory taxation on cooperative profits. Zhyvkov defended higher earnings for cooperative members: "When working on a state order, they double or treble their productivity, and their members' earnings are correspondingly high," he said (average incomes paid by cooperatives are estimated to be between 1.5 and two times more than for workers in state enterprises). The Law was approved, with effect from 1 July 1988.

Taxation rates on cooperative and members' incomes were not indicated in the law, which only mentioned the possibility of rates being differentiated according to kind, sector and aims of cooperatives, and enabled the Council of Ministers to provide tax benefits "to provide incentive for the production of goods, jobs and services" (art. 19.2 of draft law). Before the draft was discussed, however, a government decree had fixed particularly high, indeed punitive rates of progressive taxation on cooperative profits, up to 90 per cent. After considerable debate the decree was suspended, and no alternative rate has been fixed.

At the Presidium of the Soviet Council of Ministers of 13 July the question of taxation of the incomes of cooperatives and their members was discussed (see the transcript of Soviet television reports, in BBC-SWB, 23 July 1988). Finance Minister Gostev reported that initially cooperatives had paid to the state budget a small part of their taxable income, while cooperative members were taxed at the same rate as workers of state enterprises (who pay a tax rate between 8 and 13 per cent); however it had become apparent that cooperatives "started to direct everything, or nearly everything, that they earned into the payment for labour rather than into strengthening their material and technical base" (ibidem, p. 1); this put them at an unfair advantage over state enterprises, which do not distribute their whole income to workers (p. 2). Gostev proposed taxation rates on cooperative taxable income of 5 to 30 per cent according to type of activity (comparable to the 35 per cent rate paid by consumer cooperatives), reduced by 50 per cent in the first year of operation and by 25 per cent in the second year; contributions to charities would be exempted; further exemptions right down to zero rating could be granted by local soviets. Taxable income of cooperatives is defined as receipts minus material expenditure, i.e. gross value added, though the Ministry of Justice was in

favour of exempting investment expenditure from tax (ibidem, p. 2). Gostev argued for progressive taxation of cooperative members, in view of their earnings reaching up to 1000 roubles per month and more, compared to the average 200 roubles per month for the other 120,000,000 workers in the economy. Other speakers at the meeting mentioned the 14-16 hours working day of cooperative members, lack of breaks and holidays, the intensification of work, the poor working conditions in cooperatives; spoke of "sensationalism" exaggerating actual incomes, of the "tax on raw materials, equipment and transport" implicit in cooperative procurement prices relatively to those paid by state enterprises (leather, for instance, is sold to citizens and cooperatives at a price six times that practiced to state enterprises).

At the same meeting Dr Tatyana Koryagina, of the Economic Research Institute of the USSR State Planning Committee, reported that for the increase in retail trade turnover planned by the year 2005 to come from the cooperative sector (excluding kolkhozy), 30 million people would have to be employed in the sector, producing 15-18 per cent of national income (BBC-SWB transcript, p. 4). Academician Leonid Abalkin, Director of the Economics Institute of the USSR Academy of Science, stressed that the problem was not the level of incomes but, whether in the state of the cooperative sector, whether they had been "earned"; he opposed a tax regime different from that applicable to other workers or at any rate a tax rate higher than 25 per cent, and supported the deduction of investment from cooperative taxable income.

At the end of August 1988 a "civil tax initiative" scheme was put forward by 100 cooperative chairmen (announced by Mr Ivan Yefremov Chairman of the Uspekh cooperative in Moscow, see FT, 27 August) suggesting a flat rate of 20 per cent on all incomes over 100 roubles a month (plus 100 roubles allowance per dependent). Mr Yefremov spoke of the "optimum tax rate" as that which "combines the highest earnings for the national budget with the least loss of personal income", but the two criteria are likely to be irreconcilable: in general there is no way to avoid the dilemma between equality and efficiency.

## 10. Conclusion

There is no doubt that the Soviet cooperative sector has the "immense potential" stated in the Law, and that cooperatives have the fullest ideological and material backing of Soviet leadership. However cooperatives are still subject to administrative measures of allocation of natural resources, centralised supply of materials and strict price controls, foreign trade licencing and limited access to foreign exchange. The new Soviet cooperative, in addition, is fully exposed to the dangers of traditional cooperatives, i.e. membership restrictive policy, rigid or perverse response to price change and investment biases against self-finance and labour-using projects; the

introduction of shares might solve these problems but the Law envisages no more than variable interest bonds without vote, redeemable at face value (except in case of liquidation when a participation in cooperative net capital is possible, but only partially). The conflict between equality and efficiency in the taxation of cooperatives and their members has not been resolved. In these conditions it is doubtful whether Soviet cooperatives' "immense potential" will be fully realised.

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